

VZCZCXRO9200
RR RUEHDA
DE RUEHAK #1280 1981247
ZNR UUUUU ZZH
R 161247Z JUL 08
FM AMEMBASSY ANKARA
TO RUEHC/SECSTATE WASHDC 6865
INFO RUEHIT/AMCONSUL ISTANBUL 4479
RUEHDA/AMCONSUL ADANA 3080

UNCLAS ANKARA 001280

SENSITIVE
SIPDIS

E.O. 12958:N/A
TAGS: [ECON](#) [ENRG](#) [TU](#)
SUBJECT: TURKEY: PRIVATIZATION SUCCEEDS DESPITE POLITICAL TURMOIL

REF: ANKARA 862

1. (SBU) Summary. Despite the global economic downturn and Turkish domestic political turmoil, the GOT successfully privatized two electricity distribution companies earlier this month. This sale demonstrated Turkey's continuing ability to attract foreign investment, to command a good price and secure financing. American company AES did not bid this time but is considering entering the next round to be held September 15. End summary.

2. (U) On July 2, the GOT announced the winners of the first electricity distribution privatization sale. Five bidders competed to purchase the operating rights for the Baskent Electricity Distribution Inc. (BEDAS) which covers the capital city and surrounding towns (reftel). The winning bid was Enerjisa, a consortium of Turkey's Sabanci Holding Austria's Verbund which paid USD 1.22 billion. The second tender was for Sakarya Electricity Distribution Inc (SEDAS). Again five bidders competed and Akcez Joint Partnership Group, a consortium of Turkey's Ak Enerji and the Czech Republic's CEZ, won the tender with a USD 600 million bid.

3. (SBU) Winning bids were in line with market and GOT expectations. Energy Ministry Advisor Zahit Karakaya said the GOT is satisfied with the prices and that higher loss rates justify a lower price for SEDAS. Unit Energy Managing Director Enver Guney told us BEDAS and SEDAS sales prices were in line with his company's internal calculations. Guney said his company, which partnered with Dogan Group and Dogus Group for the tender, decided not to bid aggressively now in favor of upcoming opportunities in Istanbul. Sabanci Energy Group Head Selahattin Hakman said publically the BEDAS acquisition is part of a larger Sabanci strategy to increase market share to 10% of Turkey's energy sector by 2015, which will require a USD 6.5 billion investment. Electricity distribution privatization is critical to overcome the projected electricity supply shortages. Enerjisa announced in July it signed a EURO 1 billion loan for its energy sector investments which shows financiers are positive about long-term growth prospects for Turkey's energy sector.

4. (SBU) Turkey-based AES-ICTAS CEO Mark Green confirmed that AES, an American firm, did not participate in this first round of privatization. Green said AES took a "wait and see" approach to this round, evaluating the debt-to-equity ratio of the winning bids and bidders' ability to raise financing in today's tight credit market. Green thought the prices for BEDAS and SEDAS were on target and estimated the companies' worth at USD 1.5 billion and USD 600-700 million, respectively. AES is considering entering the next round of privatization but incomplete market de-regulation poses a risk for bidders. Electricity shortages in near term (2-3 years) may significantly drive up the cost of the wholesale electricity power and the GOT has not instituted a mechanism to pass this cost along to the customer, which leaves prospective bidders, like AES, wondering whether they will be left with costs they can't recoup.